

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Cheboygan County	County Cheboygan
Fiscal Year End December 31, 2006	Opinion Date April 12, 2007	Date Audit Report Submitted to State May 14, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman & Co., PLC		Telephone Number 906-495-5952		
Street Address 16978 S. Riley Avenue		City Kincheloe	State MI	Zip 49788
Authorizing CPA Signature <i>Kenneth A. Talsma</i>		Printed Name Kenneth A. Talsma		License Number 1101024989

COUNTY OF CHEBOYGAN, MICHIGAN

BASIC FINANCIAL STATEMENTS

December 31, 2006

CHEBOYGAN COUNTY, MICHIGAN

ORGANIZATION

MEMBERS OF THE COUNTY COMMISSION

COMMISSIONER	LINDA SOCHA
COMMISSIONER	HERBERT MAKIMA
COMMISSIONER	PETER REDMOND
COMMISSIONER	ALICE MUSHLOCK
COMMISSIONER	DANIEL O'HENLEY
COMMISSIONER	JOHN B. WALLACE
COMMISSIONER	ROBERT R. BOLINGER

APPOINTED/ELECTED OFFICIALS

COUNTY ADMINISTRATOR	MICHAEL OVERTON
FINANCE DIRECTOR	KARI KORTZ
COUNTY TREASURER	LINDA A. CRONAN
COUNTY CLERK	MARY ELLEN TRYBAN
COUNTY SHERIFF	DALE CLARMONT
PROSECUTING ATTORNEY	CATHERINE CASTAGNE

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITORS' REPORT

Honorable Chairperson and Members
Of the Board of Commissioners
County of Cheboygan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Cheboygan, Michigan as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Cheboygan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Cheboygan County Road Commission, which represent 100% of the assets and revenues of the Discretely Presented Component Unit. Those financial statements were audited by other auditors whose report has been furnished to us and in our opinion, is so far as it relates to the amounts recorded for the Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Cheboygan, Michigan as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2007 on our consideration of the County of Cheboygan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparisons as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Cheboygan's, basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

April 12, 2007

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of **County of Cheboygan, Michigan** (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of fiscal year 2006 by \$24,002,154 net assets). Of this \$10,812,529 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved undesignated fund balance for the General Fund was \$1,957,957 or 21% of the total General Fund expenditures and transfers.
- The County revenue was modified during 2004 due to state legislation which changed the property tax levy for Michigan taxpayers. The impact of Public Act 357 of 2004 to the County is that property taxes will be collected and a portion of the money will be set aside in a revenue sharing reserve fund. The State controls how the money can be transferred back to the General Fund for operations. This amount in theory is intended to replace the state revenue sharing money that has been paid by the State as a portion of the sales tax revenue pursuant to Proposal A. The impact of this proposal, which gradually shifts the levy from December to July will increase each year and peak in 2007. This will significantly impact the cash flow of the County at that time. The County now maintains a Revenue Sharing Reserve Fund as a governmental fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, earned but unused vacation leave and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include legislative, judicial, general government, public safety, health and welfare, recreation and culture and other. The business-type activities include marina operations, delinquent tax collections, tax foreclosures, Straits Regional Ride, and jail commissary operations.

The government-wide financial statements include not only the County itself (known as the primary government), but also the Cheboygan County Road Commission, a legally separate component unit for which the County is financially accountable. The Road Commission issued separate audited financial statements including a management discussion and analysis. In the government-wide financial statements, financial information for the Cheboygan County Road Commission is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-14 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains 38 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Revenue Sharing Reserve Fund, Housing Commission Fund and Inverness Township Sewer Fund, each of which are considered to be major funds. Data from the other 34 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and each major special revenue fund.

The basic governmental fund financial statements can be found on pages 15-17 of this report.

Proprietary funds. The County maintains one of the two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its marina operations, delinquent tax collections, tax foreclosures, Straits Regional Ride and jail commissary operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Marina and Delinquent Tax Funds, which are considered major funds of the County. Individual fund data for the non-major enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on 18-20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-42 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information including the combining statements referred to earlier in connection with nonmajor governmental and proprietary funds which are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 43-57 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by \$24,002,154 at the close of fiscal year 2006 compared to \$22,084,942 at the close of 2005.

Investment in capital assets (e.g., land and improvements, buildings and improvement, machinery and equipment, vehicles and docks), less any related debt used to acquire those assets that is still outstanding represents approximately 36% of the County's net assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of unrestricted net assets (\$10,812,529) for 2006 may be used to meet the government's ongoing obligation to citizens and creditors.

**County of Cheboygan
Net Assets**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current Assets	\$ 14,826,369	\$ 16,926,674	\$ 7,047,376	\$ 6,862,503	\$ 21,873,745	\$ 23,789,177
Noncurrent Assets	<u>7,268,364</u>	<u>7,397,510</u>	<u>1,505,053</u>	<u>1,572,493</u>	<u>8,773,417</u>	<u>8,970,003</u>
Total Assets	<u>\$ 22,094,733</u>	<u>\$ 24,324,184</u>	<u>\$ 8,552,429</u>	<u>\$ 8,434,996</u>	<u>\$ 30,647,162</u>	<u>\$ 32,759,180</u>
Current Liabilities	\$ 6,324,214	\$ 10,174,929	\$ 42,323	\$ 91,934	\$ 6,366,537	\$ 10,266,863
Noncurrent Liabilities	<u>278,471</u>	<u>407,375</u>	<u>-</u>	<u>-</u>	<u>278,471</u>	<u>407,375</u>
Total Liabilities	<u>6,602,685</u>	<u>10,582,304</u>	<u>42,323</u>	<u>91,934</u>	<u>6,645,008</u>	<u>10,674,238</u>
Net Assets						
Invested in Capital Assets -						
Net of Related Debt	7,127,060	7,111,173	1,505,053	1,572,493	8,632,113	8,683,666
Restricted	4,304,661	2,965,074	252,851	345,058	4,557,512	3,310,132
Unrestricted	<u>4,060,327</u>	<u>3,665,633</u>	<u>6,752,202</u>	<u>6,425,511</u>	<u>10,812,529</u>	<u>10,091,144</u>
Total Net Assets	<u>\$ 15,492,048</u>	<u>\$ 13,741,880</u>	<u>\$ 8,510,106</u>	<u>\$ 8,343,062</u>	<u>\$ 24,002,154</u>	<u>\$ 22,084,942</u>

At the end of the current fiscal year, the County is able to report positive balances in both categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's total net assets increased \$1,882,561 during the current fiscal year.

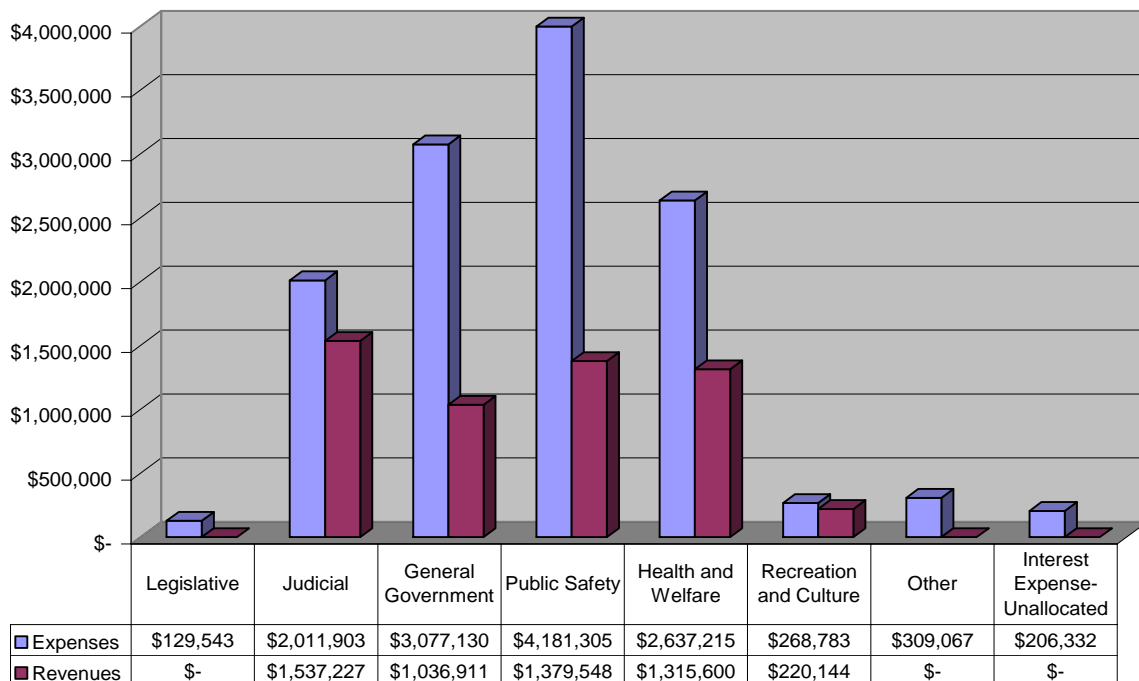
**County of Cheboygan
Changes in Net Assets**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Program Revenues						
Charges for Services	\$ 2,944,457	\$ 2,941,428	\$ 1,255,659	\$ 1,464,873	\$ 4,200,116	\$ 4,406,301
Operating Grants and Contributions	2,495,280	2,135,371	320,457	239,838	2,815,737	2,375,209
Capital Grants and Contributions	49,693	247,064	-	80,702	49,693	327,766
General Revenues						
Property Taxes	8,277,902	7,908,526	-	-	8,277,902	7,908,526
Other Revenue	319,910	331,990	-	-	319,910	331,990
Unrestricted Investment Earnings	285,964	148,489	249,582	138,035	535,546	286,524
Total Revenues	<u>14,373,206</u>	<u>13,712,868</u>	<u>1,825,698</u>	<u>1,923,448</u>	<u>16,198,904</u>	<u>15,636,316</u>
Program Expenses						
Legislative	129,543	123,150	-	-	129,543	123,150
Judicial	2,011,903	1,922,387	-	-	2,011,903	1,922,387
General Government	3,077,130	2,953,856	-	-	3,077,130	2,953,856
Public Safety	4,181,305	4,018,886	-	-	4,181,305	4,018,886
Health and Welfare	2,637,215	2,439,333	-	-	2,637,215	2,439,333
Recreation & Culture	268,783	268,496	-	-	268,783	268,496
Other Expenses	309,067	420,693	-	-	309,067	420,693
Interest Expense – Unallocated	206,332	253,982	-	-	206,332	253,982
Marina	-	-	624,288	567,865	624,288	567,865
Delinquent Tax	-	-	15,145	10,960	15,145	10,960
Tax Foreclosure	-	-	150,471	111,188	150,471	111,188
Straits Regional Ride	-	-	693,254	630,826	693,254	630,826
Jail Commissary	-	-	11,907	5,813	11,907	5,813
Total Expenses	<u>12,821,278</u>	<u>12,400,783</u>	<u>1,495,065</u>	<u>1,326,652</u>	<u>14,316,343</u>	<u>13,727,435</u>
Change in Net Assets Before Transfers	1,551,928	1,312,085	330,633	596,796	1,882,561	1,908,881
Transfers – Net	<u>198,240</u>	<u>351,516</u>	<u>(198,240)</u>	<u>(351,516)</u>	<u>-</u>	<u>-</u>
Changes in Net Assets	1,750,168	1,663,601	132,393	245,280	1,882,561	1,908,881
Net Assets – Beginning	13,741,880	12,078,279	8,343,062	8,097,782	22,084,942	20,176,061
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>34,651</u>	<u>-</u>	<u>34,651</u>	<u>-</u>
Net Assets – Ending	<u>\$ 15,492,048</u>	<u>\$ 13,741,880</u>	<u>\$ 8,510,106</u>	<u>\$ 8,343,062</u>	<u>\$ 24,002,154</u>	<u>\$ 22,084,942</u>

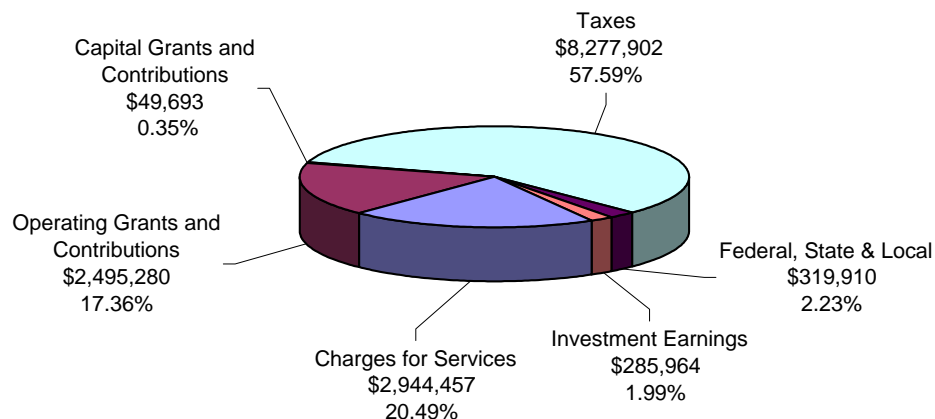
Governmental activities. Governmental activities increased the County's net assets by \$1,750,168, accounting for significantly all of the total increase in the net assets of the County.

The key element of this increase resulted from PA 357 of 2005 and the establishment of the Revenue Sharing Reserve Fund which increased net assets during the current fiscal year by approximately \$1,339,587.

Expenses and Program Revenues - Governmental Activities

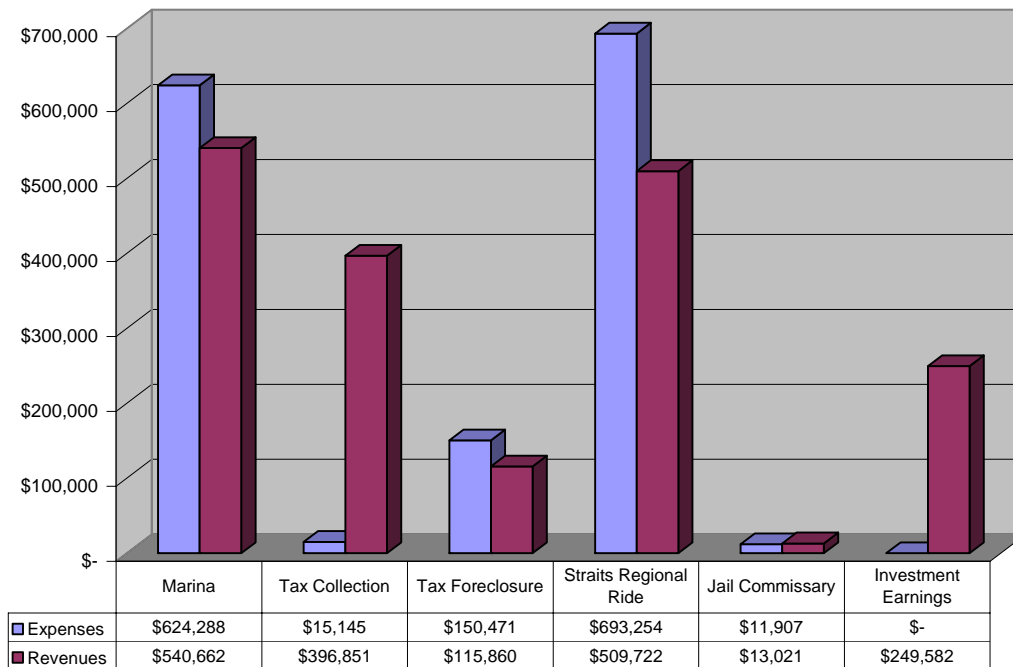


Revenues by Source - Governmental Activities

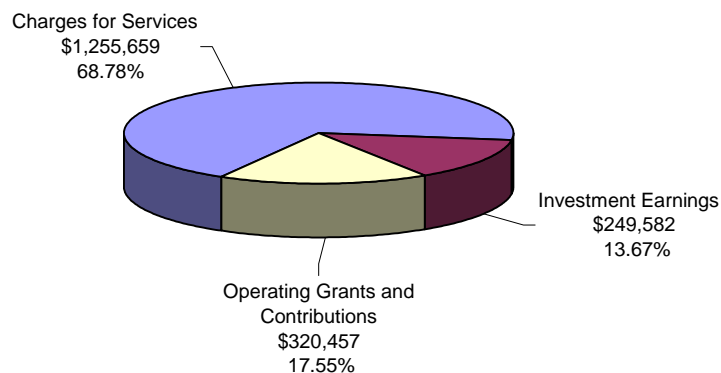


Business-type activities. Business-type activities increased the County's net assets by \$132,393, accounting for approximately 7% of the total increase in the County's net assets for fiscal year 2006, compared to \$245,280 or 13% for 2005. The Delinquent Tax Fund realized increase revenues of approximately \$97,000 from interest on deposits.

**Expenses and Program Revenues-
Business-type Activities**



**Revenues by Source-
Business-type Activities**



Financial Analysis of the Government's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the County. The General Fund fund balance increased by \$308,687 from \$1,917,721 to \$2,226,408 during 2006. This increase in fund balance of 16% was the result of an increase in revenues of 6.5% offset by an increase in expenses of only 3.3%.

Proprietary funds. The County proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The following differences between the final budget and the originally adopted budget:

- Federal Sources revenues increased approximately \$77,000 due to increased funding from Homeland Security, Marine Safety, Buffer Zone Protection and Juvenile Accountability Grants.
- Refunds and Reimbursements increased approximately \$34,000 primarily due to a signing bonus associated with the inmate telephone service contract, which was used to partially fund the jail expansion project.
- Other Revenue increased approximately \$56,000 primarily due to a donation received to fund the newly established Canine Unit.
- Juvenile Accountability expenditures increased \$13,305 as the grant award had not been approved prior to the adoption of the budget.
- Finance Office expenditures increased approximately \$29,000 due to staff changes and office furniture and equipment related to relocating the office.
- Administrative Office expenditures increased approximately \$55,000 due to hiring of an Information System Director and costs related to the Administrator's contract which were not included in the 2006 budget.
- Major Equipment & Building expenditures increased approximately \$22,000 due to the jail expansion project.
- Human Resources expenditures increased approximately \$19,000 due to the establishment of the department.
- Marine Safety expenditures increased approximately \$26,000 due to the purchase on a new boat funded through receipts from a grant and a contractual services agreement.
- Canine Unit expenditures increased approximately \$45,000 due to the establishment of the department.
- Buffer Zone Protection expenditures increase approximately \$12,000 as the 2005 grant award was not entirely expended during 2005; however, was not included in the 2006 budget.

General Fund Budgetary Highlights (Continued)

- HSGP Block Grant expenditures increased approximately \$26,000 due to additional equipment and contractual services purchased with grant funding.
- Emergency Services expenditures increased approximately \$4,000 due to an increase charge for services.
- Other Miscellaneous expenditures decreased approximately \$148,000 due to transferring budget appropriations to the other departments.

In total, actual revenues exceeded the final budget by \$242,369. Refunds and Reimbursements exceeded the final budget by \$79,600 due to the collection of data processing fees, general refunds and refunds on insurance policies held by the County. Interest on Deposits exceeds the final budget by \$171,038 due to better interest rates and investment strategies in 2006. Actual expenditures were under budget for all functional expenditures as well as departments. Transfers in were below budget by approximately \$688,000 as a smaller transfer was required from the Tax Revolving Fund to maintain the General Fund fund balance than was expected based on budgeted revenues and expenditures. Transfers out were also below budget by approximately \$244,000 due to reductions in the required contribution to the Friend of the Court, Social Services Medical, Childcare and Straits Regional Ride funds.

Revenue Sharing Reserve Fund Budgetary Highlights

The maximum allowable expenditure amount for this fund is determined by the State of Michigan; however, it is a County practice to balance the budget, and accordingly, budgeted expenditures were recorded for the same amount as budgeted tax revenue which was equal to one third of the 2004 tax levy. This resulted in a significant budget variance. This fund was established to accumulate funds and the excess revenue over expenditures was expected.

Housing Commission Fund Budgetary Highlights

The other revenue final budget differed from the originally adopted budget because there was an increase in program income which included the pay-off of two mortgages. Since program income must be expended prior to receiving any federal grant funding, there was less federal sources revenue received than budgeted for in 2006. The difference between the state sources revenue original and final budgets and the actual amount was due to an inability to perform services covered by a rental rehabilitation grant, as there were not any lead-based paint abatement contractors in our area. The projects completed during 2006 did not require the full use of grant funds as budgeted resulting in the difference between the expenditures original and final budgets and the actual amount.

Capital Asset and Debt Administration

Capital assets. The County defines a capital asset as an asset whose cost exceeds \$5,000 and useful life is greater than one year. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

Capital Asset and Debt Administration (Continued)

County of Cheboygan
Capital Assets
(net of depreciation, where applicable)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>
Land	\$ 3,218,280	\$ -	\$ 3,218,280
Land improvements	30,085	684,574	714,659
Buildings and improvements	3,408,390	290,588	3,698,978
Machinery and equipment	358,109	10,841	368,950
Vehicles	253,500	-	253,500
Transportation equipment	-	227,751	227,751
Docks	-	291,299	291,299
Total capital assets	<u>\$ 7,268,364</u>	<u>\$ 1,505,053</u>	<u>\$ 8,773,417</u>

Additional information on the County capital assets can be found in Note 5 on pages 31-33 of this report.

Debt administration. Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for from a debt service fund.

Long-term debt. Debt is classified as long-term if the debt matures in a period greater than one year. The County entered into an agreement with Inverness Township for the Inverness Township Sewer Project. The Township pledged its full faith and credit for the repayment of the loan; therefore, this debt is not included in the County's financial statements.

Additional information on the County long-term debt can be found in Note 7 on pages 35-36 of this report.

Economic Factors and Next Year's Budgets and Rates

The County continues to budget in anticipation of State and Federal budget cuts with less grants and other funding from these sources. The elimination of state revenue sharing in 2004 and implementation of the State Revenue Sharing Reserve will continue to impact the County budget and in particular, cash flow, until it is fully implemented in 2007. The 2007 General Fund budget is \$10 million and maintains essentially the same programming as 2006 except for the establishment of a separate Information Systems Department which was previously included in the Administration Department.

Component Unit

A complete financial statement and management's discussion and analysis may be obtained from the Cheboygan County Road Commission.

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Administrative Office, County of Cheboygan, Michigan, 870 S. Main, PO Box 70, Cheboygan, Michigan, 49721.

Basic Financial Statements

County of Cheboygan, Michigan

Statement of Net Assets December 31, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
ASSETS:				
Current Assets:				
Cash & Equivalents - Unrestricted	\$ 5,421,589	\$ 5,472,985	\$ 10,894,574	\$ 578,216
Cash & Equivalents - Restricted	-	238,436	238,436	-
Receivables:				
Accounts	29,519	130,341	159,860	-
Taxes	4,434,265	1,250,493	5,684,758	-
Interest	-	226,933	226,933	-
Notes	1,049,387	-	1,049,387	-
Lease	3,250,000	-	3,250,000	-
Internal Loans	295,128	(295,128)	-	-
Prepaid Expenses	-	923	923	150,720
Due from Governmental Units	346,481	-	346,481	1,076,365
Inventories	-	22,393	22,393	830,504
Total Current Assets	14,826,369	7,047,376	21,873,745	2,635,805
Noncurrent Assets:				
Capital Assets Not Depreciated	3,218,280	-	3,218,280	8,168,166
Capital Assets (Net of Accumulated Depreciation)	4,050,084	1,505,053	5,555,137	15,184,810
Total Non Current Assets	7,268,364	1,505,053	8,773,417	23,352,976
TOTAL ASSETS	22,094,733	8,552,429	30,647,162	25,988,781
LIABILITIES:				
Current Liabilities:				
Accounts Payable	144,090	20,303	164,393	263,487
Accrued Liabilities	122,901	22,020	144,921	74,494
Accrued Interest Payable	1,143	-	1,143	51,278
Due to Governmental Units	34,000	-	34,000	17,050
Advances and Deposits	-	-	-	459,897
Deferred Revenue	5,880,776	-	5,880,776	-
Capital Leases	1,304	-	1,304	-
Installment Loans	140,000	-	140,000	37,345
Bonds Payable	-	-	-	85,000
Total Current Liabilities	6,324,214	42,323	6,366,537	988,551
Noncurrent Liabilities:				
Vested Employee Benefits	278,471	-	278,471	340,298
Installment Loans	-	-	-	158,582
Bonds Payable	-	-	-	2,835,000
Total Noncurrent Liabilities	278,471	-	278,471	3,333,880
TOTAL LIABILITIES	6,602,685	42,323	6,645,008	4,322,431
NET ASSETS:				
Invested in Capital Assets (Net of Related Debt)	7,127,060	1,505,053	8,632,113	20,237,049
Restricted for County Road	-	-	-	823,570
Restricted	4,304,661	252,851	4,557,512	-
Unrestricted	4,060,327	6,752,202	10,812,529	605,731
TOTAL NET ASSETS	\$ 15,492,048	\$ 8,510,106	\$ 24,002,154	\$ 21,666,350

See accompanying notes to financial statements.

County of Cheboygan, Michigan

Statement of Activities Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 129,543	\$ -	\$ -	\$ -	\$ (129,543)	\$ -	\$ (129,543)	\$ -
Judicial	2,011,903	671,374	865,853	-	(474,676)	-	(474,676)	-
General Government	3,077,130	663,191	373,720	-	(2,040,219)	-	(2,040,219)	-
Public Safety	4,181,305	936,888	392,967	49,693	(2,801,757)	-	(2,801,757)	-
Health & Welfare	2,637,215	452,860	862,740	-	(1,321,615)	-	(1,321,615)	-
Recreation & Culture	268,783	220,144	-	-	(48,639)	-	(48,639)	-
Other Expenses	309,067	-	-	-	(309,067)	-	(309,067)	-
Interest Expense - Unallocated	206,332	-	-	-	(206,332)	-	(206,332)	-
Total Governmental Activities	12,821,278	2,944,457	2,495,280	49,693	(7,331,848)	-	(7,331,848)	-
Business-type Activities:								
Marina	624,288	540,662	-	-	-	(83,626)	(83,626)	-
Delinquent Tax	15,145	396,851	-	-	-	381,706	381,706	-
Tax Foreclosure	150,471	115,860	-	-	-	(34,611)	(34,611)	-
Straits Regional Ride	693,254	189,265	320,457	-	-	(183,532)	(183,532)	-
Jail Commissary	11,907	13,021	-	-	-	1,114	1,114	-
Total Business-type Activities	1,495,065	1,255,659	320,457	-	-	81,051	81,051	-
Total Primary Government	14,316,343	4,200,116	2,815,737	49,693	(7,331,848)	81,051	(7,250,797)	-
Component Unit:								
Road Commission	7,261,486	2,040,823	5,919,824	-				699,161
Total Component Unit	7,261,486	2,040,823	5,919,824	-				699,161
Total	\$ 21,577,829	\$ 6,240,939	\$ 8,735,561	\$ 49,693				
General Revenues and Transfers:								
Taxes					8,277,902	-	8,277,902	-
Federal, State, & Local - General					319,910	-	319,910	-
Investment Earnings					285,964	249,582	535,546	27,811
Other					-	-	-	3,395
Transfers					198,240	(198,240)	-	-
Total General Revenues and Transfers					9,082,016	51,342	9,133,358	31,206
Change in Net Assets					1,750,168	132,393	1,882,561	730,367
Net Assets - Beginning					13,741,880	8,343,062	22,084,942	20,935,983
PRIOR PERIOD ADJUSTMENT					-	34,651	34,651	-
Net Assets - Ending					\$ 15,492,048	\$ 8,510,106	\$ 24,002,154	\$ 21,666,350

County of Cheboygan, Michigan

Balance Sheet Governmental Funds December 31, 2006

	General	Revenue Sharing Reserve	Housing Commission	Inverness Sewer Debt	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash & Equivalents - Unrestricted	\$ 2,590,871	\$ 1,831,393	\$ 116,347	\$ 5,085	\$ 877,893	\$ 5,421,589
Receivables:						
Accounts	11,577	-	-	-	17,942	29,519
Taxes	2,031,351	1,806,365	-	-	596,549	4,434,265
Notes	-	-	1,049,387	-	-	1,049,387
Lease	-	-	-	3,250,000	-	3,250,000
Due from Other Funds	351,708	666,903	-	-	-	1,018,611
Due from Governmental Units	165,032	-	22,971	-	158,478	346,481
TOTAL ASSETS	5,150,539	4,304,661	1,188,705	3,255,085	1,650,862	15,549,852
LIABILITIES:						
Accounts Payable	113,765	-	915	-	29,410	144,090
Accrued Liabilities	109,236	-	-	-	13,665	122,901
Due to Other Funds	666,903	-	29,240	-	27,340	723,483
Due to Governmental Units	-	-	-	-	34,000	34,000
Deferred Revenue	2,034,227	-	1,049,387	3,250,000	596,549	6,930,163
TOTAL LIABILITIES	2,924,131	-	1,079,542	3,250,000	700,964	7,954,637
FUND BALANCES:						
Reserved	-	4,304,661	-	-	-	4,304,661
Unreserved:						
Designated for Subsequent Year's Expenditures	234,549	-	33,200	-	84,374	352,123
Designated for Recreation	16,844	-	-	-	-	16,844
Designated for Local Grants	8,490	-	-	-	-	8,490
Designated for Caseflow	8,568	-	-	-	-	8,568
Designated for Debt Service	-	-	-	5,085	-	5,085
Undesignated	1,957,957	-	75,963	-	865,524	2,899,444
TOTAL FUND BALANCES	2,226,408	4,304,661	109,163	5,085	949,898	7,595,215
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,150,539	\$ 4,304,661	\$ 1,188,705	\$ 3,255,085	\$ 1,650,862	

Reconciliation to amounts reported for governmental activities in the statement of net assets:

Capital assets used by governmental activities are not financial resources and therefore are not reported in the funds.	7,268,364
Deferred revenue on notes receivable is recognized as revenue under full accrual.	1,049,387
Long-term notes payable for governmental activities not due and payable in the current period.	(140,000)
Compensated absences liability not recognized in the funds.	(278,471)
Capital leases payable for governmental activities not due and payable in current period.	(1,304)
Accrued interest expense on long-term debt not recognized in the funds.	(1,143)
Net assets of governmental activities	\$ 15,492,048

County of Cheboygan, Michigan

Statement of Changes in Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds Year Ended December 31, 2006

	General	Revenue Sharing Reserve	Housing Commission	Inverness Sewer Debt	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes	\$ 5,958,505	\$ 1,806,364	\$ -	\$ -	\$ 513,033	\$ 8,277,902
Licenses & Permits	60,328	-	-	-	-	60,328
Federal Sources	201,195	-	99,908	-	455,941	757,044
State Sources	671,828	-	-	-	912,703	1,584,531
Local Sources	146,828	-	-	319,910	56,570	523,308
Contributions	-	-	-	-	14,486	14,486
Charges for Services	1,173,385	-	-	-	602,728	1,776,113
Fines & Penalties	47,924	-	-	-	5,640	53,564
Interest & Rentals	269,038	-	1,675	763	14,488	285,964
Refunds & Reimbursements	292,676	-	-	-	-	292,676
Other Revenues	63,070	-	56,396	-	530,915	650,381
TOTAL REVENUES	8,884,777	1,806,364	157,979	320,673	3,106,504	14,276,297
EXPENDITURES:						
Legislative	129,543	-	-	-	-	129,543
Judicial	1,530,583	-	-	-	474,644	2,005,227
General Government	2,818,048	-	-	-	212,189	3,030,237
Public Safety	3,452,873	-	-	-	696,727	4,149,600
Health & Welfare	624,432	-	174,245	-	1,797,799	2,596,476
Recreation & Cultural	61,550	-	-	-	196,733	258,283
Other Expenditures	160,517	-	-	129,950	-	290,467
Capital Outlay	-	-	-	-	18,600	18,600
Debt Service	-	-	-	197,210	150,220	347,430
TOTAL EXPENDITURES	8,777,546	-	174,245	327,160	3,546,912	12,825,863
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	107,231	1,806,364	(16,266)	(6,487)	(440,408)	1,450,434
OTHER FINANCING SOURCES (USES):						
Transfers In	770,760	-	-	-	540,294	1,311,054
Transfers Out	(569,304)	(466,777)	-	-	(76,733)	(1,112,814)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	308,687	1,339,587	(16,266)	(6,487)	23,153	1,648,674
FUND BALANCES, JANUARY 1	1,917,721	2,965,074	125,429	11,572	926,745	5,946,541
FUND BALANCES, DECEMBER 31	\$ 2,226,408	\$ 4,304,661	\$ 109,163	\$ 5,085	\$ 949,898	\$ 7,595,215

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
Year Ended December 31, 2006**

Net changes in fund balances – total governmental funds \$ 1,648,674

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$349,398) exceeded capital outlays of \$220,252. (129,146)

Repayment of debt principal is an expenditure in the governmental fund but reduces the liability in the statement of net assets. 145,033

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred. 96,909

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	(12,400)	
Accrued interest on bonds	<u>1,098</u>	
		<u>(11,302)</u>

Changes in net assets of governmental funds \$ 1,750,168

County of Cheboygan, Michigan

Statement of Net Assets Proprietary Funds December 31, 2006

	Enterprise Funds			
	Marina	Delinquent Tax	Other Funds	Totals
ASSETS:				
Cash & Equivalents - Unrestricted	\$ 21,880	\$ 4,943,582	\$ 507,523	\$ 5,472,985
Cash & Equivalents - Restricted	238,436	-	-	238,436
Receivables:				
Accounts	3,389	47,903	79,049	130,341
Taxes	-	1,250,493	-	1,250,493
Interest	-	226,933	-	226,933
Prepaid Expenses	923	-	-	923
Inventory	22,393	-	-	22,393
Total Current Assets	<u>287,021</u>	<u>6,468,911</u>	<u>586,572</u>	<u>7,342,504</u>
Capital Assets (Net of Accumulated Depreciation)	<u>1,272,726</u>	<u>-</u>	<u>232,327</u>	<u>1,505,053</u>
TOTAL ASSETS	<u><u>\$ 1,559,747</u></u>	<u><u>\$ 6,468,911</u></u>	<u><u>\$ 818,899</u></u>	<u><u>\$ 8,847,557</u></u>
LIABILITIES:				
Accounts Payable	\$ 118	\$ -	\$ 20,185	\$ 20,303
Accrued Liabilities	885	-	21,135	22,020
Due to Other Funds	12,438	227,250	55,440	295,128
TOTAL LIABILITIES	<u>13,441</u>	<u>227,250</u>	<u>96,760</u>	<u>337,451</u>
NET ASSETS:				
Invested in Capital Assets	1,272,726	-	232,327	1,505,053
Restricted	238,436	14,415	-	252,851
Unrestricted	35,144	6,227,246	489,812	6,752,202
TOTAL NET ASSETS	<u><u>\$ 1,546,306</u></u>	<u><u>\$ 6,241,661</u></u>	<u><u>\$ 722,139</u></u>	<u><u>\$ 8,510,106</u></u>

County of Cheboygan, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds Year Ended December 31, 2006

	Enterprise Funds			
	Marina	Delinquent Tax	Other Funds	Totals
OPERATING REVENUES:				
Federal Revenue - Operations	\$ -	\$ -	\$ 99,386	\$ 99,386
State Revenue - Operations	-	-	221,071	221,071
Charges for Services	540,662	129,074	318,146	987,882
Interest & Rentals	-	267,777	-	267,777
TOTAL OPERATING REVENUES	540,662	396,851	638,603	1,576,116
OPERATING EXPENSES:				
Personal Services	123,489	-	121,650	245,139
Contractual Services	15,878	-	440,414	456,292
Utilities	15,607	-	1,331	16,938
Repairs & Maintenance	22,436	-	43,929	66,365
Other Supplies & Expenses	391,302	11,266	121,351	523,919
Depreciation	55,576	-	126,957	182,533
TOTAL OPERATING EXPENSES	624,288	11,266	855,632	1,491,186
OPERATING INCOME (LOSS)	(83,626)	385,585	(217,029)	84,930
NON-OPERATING REVENUES (EXPENSES):				
Interest on Deposits	14,767	220,931	13,884	249,582
Interest Expense	-	(3,879)	-	(3,879)
TOTAL NON-OPERATING REVENUES	14,767	217,052	13,884	245,703
INCOME (LOSS) BEFORE TRANSFERS	(68,859)	602,637	(203,145)	330,633
Transfers In	-	-	29,010	29,010
Transfers Out	-	(227,250)	-	(227,250)
CHANGE IN NET ASSETS	(68,859)	375,387	(174,135)	132,393
NET ASSETS, JANUARY 1	1,615,165	5,866,274	861,623	8,343,062
PRIOR PERIOD ADJUSTMENT	-	-	34,651	34,651
NET ASSETS, DECEMBER 31	\$ 1,546,306	\$ 6,241,661	\$ 722,139	\$ 8,510,106

County of Cheboygan, Michigan

Statement of Cash Flows Proprietary Funds Year Ended December 31, 2006

	Enterprise Funds			
	Marina	Delinquent Tax	Other Funds	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 545,008	\$ 633,393	\$ 232,374	\$ 1,410,775
Receipts from Governmental Units	-	-	332,526	332,526
Payments to Suppliers	(428,617)	(11,266)	(637,582)	(1,077,465)
Payments to Employees	(124,831)	-	(93,135)	(217,966)
Net Cash Provided (Used) by Operating Activities	(8,440)	622,127	(165,817)	447,870
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Prior Period Adjustment	-	-	34,651	34,651
Transfers Out	-	(227,250)	-	(227,250)
Transfers In	-	-	29,010	29,010
Net Cash Provided (Used) by Non-Capital Financing Activities	-	(227,250)	63,661	(163,589)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Capital Assets	(115,093)	-	-	(115,093)
Notes Payable Proceeds	-	500,000	-	500,000
Principal Payments	-	(500,000)	-	(500,000)
Interest Payments	-	(3,879)	-	(3,879)
Net Cash Used by Capital and Related Financing Activities	(115,093)	(3,879)	-	(118,972)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	14,767	220,931	13,884	249,582
Net Cash Provided by Investing Activities	14,767	220,931	13,884	249,582
Net Increase (Decrease) in Cash and Cash Equivalents	(108,766)	611,929	(88,272)	414,891
Cash and Cash Equivalents - Beginning of the Year	369,082	4,331,653	595,795	5,296,530
Cash and Cash Equivalents - End of the Year	\$ 260,316	\$ 4,943,582	\$ 507,523	\$ 5,711,421
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (83,626)	\$ 385,585	\$ (217,029)	\$ 84,930
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	55,576	-	126,957	182,533
Change in Assets and Liabilities:				
(Increase) Decrease in Assets:				
Accounts Receivable	4,346	(376)	(73,703)	(69,733)
Taxes Receivable	-	27,351	-	27,351
Interest Receivable	-	(17,683)	-	(17,683)
Prepaid Expenses and Inventories	1,823	-	-	1,823
Increase (Decrease) in Liabilities:				
Advances Payable	-	-	(6,868)	(6,868)
Due to Other Funds	12,438	227,250	55,440	295,128
Accounts Payable	118	-	(64,038)	(63,920)
Accrued Liabilities	885	-	13,424	14,309
Net Cash Provided (Used) by Operating Activities	\$ (8,440)	\$ 622,127	\$ (165,817)	\$ 447,870

County of Cheboygan, Michigan

Statement of Fiduciary Net Assets Fiduciary Funds December 31, 2006

	<u>Agency Funds</u>
ASSETS:	
Cash & Cash Equivalents:	
Unrestricted	<u>\$ 441,387</u>
 TOTAL ASSETS	 <u><u>\$ 441,387</u></u>
 LIABILITIES:	
Due to Others	\$ 140,117
Court Items Payable	56,345
Other Liabilities	<u>244,925</u>
 TOTAL LIABILITIES	 <u><u>\$ 441,387</u></u>

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Cheboygan, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the County:

A – Reporting Entity:

The County of Cheboygan, Michigan, is a public corporation created under the Constitution and Statutes of the State of Michigan with the County Seat located in the City of Cheboygan. The County operates under an elected Board of Commissioners (seven members) and provides services to its 26,448 residents (per 2000 census) in many areas, including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and cultural activities.

Component Unit:

In conformity with U.S. generally accepted accounting principles, the financial statements of the component unit have been included in the financial reporting entity as a discretely presented component unit.

Discretely Presented Component Unit

The component unit column in the government-wide financial statements include the financial data of the only component unit of the County. The following is a summary of the component unit:

Cheboygan County Road Commission - The County Road Commission is considered part of the County reporting entity for financial reporting purposes. The Road Commission is governed by a board elected by the electorate of Cheboygan County. The Road Commission may not issue debt or levy taxes without the approval of the County Board of Commissioners. However, this component unit of Cheboygan County has been audited and reported separately. Complete financial statements of the individual component unit can be obtained from the following:

Cheboygan County Road Commission
5302 South Straits Highway
Indian River, MI 49747

Multi-County Agencies

The County participates jointly in the operation of the District Health Department Office #4 with Alpena, Presque Isle, and Montmorency Counties. All Financial operations of the District Health Department Office #4 are recorded in the financial statements of Alpena County. The funding formula requires the County to provide approximately 30% of the budget appropriation requirement, which amounted to \$235,863 for the year ended December 31, 2006. This expenditure was made from the General Fund.

The County participated in the North Country Community Mental Health Authority (the “Authority”) with Charlevoix, Otsego, Emmet, Kalkaska, and Antrim Counties. Financial statements for the Authority can be obtained from the Authority. The County contributed \$111,995 for the year ended December 31, 2006. This expenditure was made from the General Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Regional Joint Operations**

The County contributes annually to the Cheboygan Airport Authority. The Cheboygan Airport Authority operates with a separate treasurer. The County's contribution for the year ended December 31, 2006 was \$61,250. Financial statements for the Cheboygan Airport Authority may be obtained through the Cheboygan County Airport, 1520 Levering Road, Cheboygan, Michigan, 49721.

The County, together with Charlevoix and Emmet Counties, has jointly established the C.C.E. Central Dispatch Authority (the "C.C.E."), which is a Michigan municipal body formed by, and on behalf of participating municipalities located within the counties of Charlevoix, Cheboygan and Emmet, through the auspices of the Inter-governmental Contracts between Municipalities Act, Urban Cooperation Act, and Emergency Telephone Service Enabling Act. The County is required to contribute annually to the operations of the C.C.E. The funding formula, which is reviewed every five years, calls for each County to provide 20% of the required funding (total 60% for the three counties), plus their prorata share of the remainder, based on telephone lines. The County's share for the year ended December 31, 2006 was \$382,472. The purpose of the C.C.E. is to centralize the dispatch of emergency service responders in the three county areas. Financial statements for the C.C.E. may be obtained through C.C.E. Central Dispatch Authority, P.O. box 866, Petoskey, Michigan, 49770.

B – Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections and services. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Taxes Receivable – Current and Property Taxes**

The County of Cheboygan property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Cheboygan as of the preceding December 31st.

Although the County of Cheboygan's 2005 ad valorem tax is levied and collectible on December 1, 2005 and 2006 on July 1, 2006, it is the County of Cheboygan's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period.

The 2005 taxable valuation of the County of Cheboygan totaled \$1,144,828,435, on which ad valorem taxes levied consisted of 3.4174 mills for the County operating and .4597 mills for Senior Services, raising \$3,912,337 for operating and \$526,278 for Senior Services. These amounts are recognized in the respective General and Special Revenue Fund financial statements as tax revenue.

The July 1, 2006 taxable valuation of the County of Cheboygan totaled \$1,217,447,093, on which ad valorem taxes levied consisted of 3.337 mills for the General Fund, raising \$4,062,621 for operating. This amount is recognized in the General Fund financial statements as revenue.

The County utilized \$1,806,364 in taxes for the Revenue Sharing Reserve. This amount is approximately equal to 1/3 of the County's operating levy in 2004. These taxes are utilized from the December levy of the General Fund.

All other revenue items are considered to be available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Revenue Sharing Reserve Fund

This fund accounts for restricted funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

Housing Commission Fund

This fund accounts for housing programs provided to the citizens of Cheboygan County.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Inverness Sewer Debt Fund**

This fund accounts for the repayment of Inverness Township's sewer bond from Rural Development.

The County reports the following major proprietary funds:

Marina Fund

This fund accounts for the operations of the County marina.

Delinquent Tax Fund

This fund accounts for the collection of delinquent property taxes.

Additionally, the County reports the following fund types:

Special Revenue Funds

These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Enterprise Funds

These funds account for the County's business-type operations that provide services to residents of the County for a fee.

Agency Funds

These funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D - Assets, Liabilities, and Net Assets or Equity:

Bank Deposits – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Deposits are recorded at cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st and July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Certain other expenditures are recorded as prepaid assets in the fund level and government-wide financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40	years
Building Improvements	15	years
Vehicles	3 to 7	years
Office Equipment	5 to 10	years
Computer Equipment	5	years

The estimated useful lives for the component unit are as follows:

Building and Improvements	40	years
Equipment	5 to 8	years
Roads	8 to 30	years
Bridges	25 to 50	years

Compensated Absences – Primary Government – It is the County’s policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences – Component Unit – In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide statements (statements of net assets).

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 requires that budgets be adopted for governmental funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the governmental fund types for which budgets were legally adopted. The original budget adopted for the General Fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the line item.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the County's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>
Cash and Cash Equivalents					
- Unrestricted	\$ 5,421,589	\$ 5,472,985	\$ 10,894,574	\$ 441,387	\$ 578,216
- Restricted	<u>-</u>	<u>238,436</u>	<u>238,436</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,421,589</u>	<u>\$ 5,711,421</u>	<u>\$ 11,133,010</u>	<u>\$ 441,387</u>	<u>\$ 578,216</u>

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 11,131,320	\$ 441,387	\$ 577,916
Petty Cash and Cash on Hand	<u>1,690</u>	<u>-</u>	<u>300</u>
Total	<u>\$ 11,133,010</u>	<u>\$ 441,387</u>	<u>\$ 578,216</u>

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$12,088,980 of the County's bank balance of \$12,969,063 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Cash has been restricted in the Marina for construction in the amount of \$238,436.

The County's deposits and investment policy are in accordance with statutory authority.

NOTE 4 - RECEIVABLES

On May 1, 2002, Inverness Township entered into a contract with the County. This contract provides among other things that the County will finance a portion of this project in anticipation of sufficient payments to be made by the Township to pay the principal and interest on the loan. The outstanding lease receivable recorded in the accompanying basic financial statements is offset by deferred revenue because it is not available for use by the County. The loan consists of a series of notes ranging in amounts of \$40,000 to \$100,000, with maturity dates from September 1, 2007 to September 1, 2024 with interest charged at 4.625%.

On December 10, 2002 the County borrowed \$3,419,000 from the United States Department of Agriculture under the provisions of the consolidated Farm and Rural Development Act (7 U.S.C. 1921 et seq.) for the development of a sewer extension in Inverness Township.

The Township has pledged its full faith and credit for the repayment of the loan. Neither the full faith and credit nor the taxing power of the County is pledged for the payment of the notes; therefore, the debt has not been recorded in the accompanying basic financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,218,280	\$ -	\$ -	\$ 3,218,280
Subtotal	<u>3,218,280</u>	<u>-</u>	<u>-</u>	<u>3,218,280</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Capital assets being depreciated:</i>				
Land improvements	\$ 40,967	\$ -	\$ -	\$ 40,967
Buildings and improvements	6,689,884	23,484	-	6,713,368
Machinery and equipment	707,253	134,146	-	841,399
Vehicles	<u>636,037</u>	<u>62,622</u>	<u>(20,230)</u>	<u>678,429</u>
Subtotal	<u>8,074,141</u>	<u>220,252</u>	<u>(20,230)</u>	<u>8,274,163</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(8,151)	(2,731)	-	(10,882)
Buildings and improvements	(3,130,598)	(174,380)	-	(3,304,978)
Machinery and equipment	(393,700)	(89,590)	-	(483,290)
Vehicles	<u>(362,462)</u>	<u>(82,697)</u>	<u>20,230</u>	<u>(424,929)</u>
Subtotal	<u>(3,894,911)</u>	<u>(349,398)</u>	<u>20,230</u>	<u>(4,224,079)</u>
Net Capital Assets Being Depreciated	<u>4,179,230</u>	<u>(129,146)</u>	<u>-</u>	<u>4,050,084</u>
Governmental Activity Capital Total				
Capital Assets - Net of Depreciation	<u>\$ 7,397,510</u>	<u>\$ (129,146)</u>	<u>\$ -</u>	<u>\$ 7,268,364</u>
Business-type activities:				
<i>Capital assets being depreciated:</i>				
Buildings and improvements	\$ 549,133	\$ 1,164	\$ -	\$ 550,297
Land improvements	912,704	83,257	-	995,961
Machinery and equipment	85,985	-	-	85,985
Transportation equipment	771,772	-	-	771,772
Docks	<u>477,110</u>	<u>30,672</u>	<u>-</u>	<u>507,782</u>
Subtotal	<u>2,796,704</u>	<u>115,093</u>	<u>-</u>	<u>2,911,797</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(244,424)	(15,285)	-	(259,709)
Land improvements	(288,932)	(22,455)	-	(311,387)
Machinery and equipment	(65,613)	(9,531)	-	(75,144)
Transportation equipment	(421,155)	(122,866)	-	(544,021)
Docks	<u>(204,087)</u>	<u>(12,396)</u>	<u>-</u>	<u>(216,483)</u>
Subtotal	<u>(1,224,211)</u>	<u>(182,533)</u>	<u>-</u>	<u>(1,406,744)</u>
Net Capital Assets Being Depreciated	<u>1,572,493</u>	<u>(67,440)</u>	<u>-</u>	<u>1,505,053</u>
Business-type Activities Capital Assets, Net of Depreciation	<u>\$ 1,572,493</u>	<u>\$ (67,440)</u>	<u>\$ -</u>	<u>\$ 1,505,053</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:	
Judicial	\$ 19,365
General Government	122,857
Public Safety	156,575
Health and Welfare	40,101
Recreation & Cultural	<u>10,500</u>
Total Governmental Activities	<u>\$ 349,398</u>

A summary of changes in the component unit's capital assets are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Removals</u>	<u>Ending Balance</u>
<i>Capital assets not being depreciated:</i>					
Land	\$ 258,755	\$ -	\$ -	\$ -	\$ 258,755
Land and improvements	7,259,157	526,136	-	-	7,785,293
Right of ways	87,308	500	-	-	87,808
Construction in progress	<u>-</u>	<u>36,310</u>	<u>-</u>	<u>-</u>	<u>36,310</u>
Subtotal	<u>7,605,220</u>	<u>562,946</u>	<u>-</u>	<u>-</u>	<u>8,168,166</u>
<i>Capital assets being depreciated:</i>					
Buildings and improvements	3,369,835	-	-	-	3,369,835
Road equipment	6,791,226	762,990	137,996	-	7,416,220
Shop equipment	241,033	980	-	-	242,013
Office equipment	88,717	750	79	-	89,388
Engineer's equipment	64,724	-	2,379	-	62,345
Yard and storage	194,224	-	-	500	194,724
Infrastructure – Roads	11,487,730	1,352,922	-	(219,102)	12,621,550
Infrastructure – Bridges	5,098,788	413,520	-	(27,571)	5,484,737
Depletable assets – Gravel pits	<u>27,085</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,085</u>
Subtotal	<u>27,363,362</u>	<u>2,531,162</u>	<u>140,454</u>	<u>(246,173)</u>	<u>29,507,897</u>
<i>Less accumulated depreciation:</i>					
Building	(815,811)	(150,850)	-	-	(966,661)
Road equipment	(5,608,975)	(542,370)	137,996	-	(6,013,349)
Shop equipment	(98,297)	(17,307)	-	-	(115,604)
Office equipment	(62,868)	(10,500)	32	-	(73,336)
Engineer's equipment	(57,652)	(1,717)	2,379	-	(56,990)
Yard and storage	(78,772)	(18,570)	-	-	(97,342)
Infrastructure – Roads	(4,449,750)	(1,032,057)	-	(219,102)	(5,262,705)
Infrastructure – Bridges	(1,634,315)	(108,459)	-	(21,006)	(1,721,768)
Depletable assets	<u>(15,332)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,332)</u>
Subtotal	<u>(12,821,772)</u>	<u>(1,881,830)</u>	<u>140,407</u>	<u>(240,108)</u>	<u>(14,323,087)</u>
Net Capital Assets Being Depreciated	<u>14,541,590</u>	<u>649,332</u>	<u>47</u>	<u>(6,065)</u>	<u>15,184,810</u>
Total Net Capital Assets	<u>\$ 22,146,810</u>	<u>\$ 1,212,278</u>	<u>\$ 47</u>	<u>\$ (6,065)</u>	<u>\$ 23,352,976</u>

Depreciation and depletion expense was \$1,881,830.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund receivables and payables are as follows:

		DUE TO OTHER FUNDS		
DUE FROM OTHER FUNDS		General	Revenue Sharing Reserve	Totals
	General	\$ -	\$ 666,903	\$ 666,903
	Housing Commission	29,240	-	29,240
	Marina	12,438	-	12,438
	Delinquent Tax	227,250	-	227,250
	Other Funds	82,780	-	82,780
	Total	\$ 351,708	\$ 666,903	\$ 1,018,611

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

		TRANSFERS OUT				
TRANSFERS IN		General	Revenue Sharing Reserve	Delinquent Tax	Other Funds	Totals
	General	\$ -	\$ 466,777	\$ 227,250	\$ 76,733	\$ 770,760
	Other Funds	569,304	-	-	-	569,304
	Total	\$ 569,304	\$ 466,777	\$ 227,250	\$ 76,733	\$ 1,340,064

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - LONG-TERM DEBT

County contractual agreements and installment purchase agreements are general obligations of the government.

Installment purchase agreements and contractual obligation activity can be summarized as follows for the year ended December 31, 2006:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Installment purchase contract with Citizens National Bank, maturing in fiscal 2007, with annual payments ranging from \$75,000 to \$140,000, plus interest ranging from 3.8% to 4.90%	\$ 280,000	\$ -	\$ 140,000	\$ 140,000	\$ 140,000
Total Primary Government Long-Term Debt	<u>\$ 280,000</u>	<u>\$ -</u>	<u>\$ 140,000</u>	<u>\$ 140,000</u>	<u>\$ 140,000</u>
<u>Component Unit</u>					
2004 MTF Bond	\$ 3,005,000	\$ -	\$ 85,000	\$ 2,920,000	\$ 85,000
2006 Installment Loan	<u>-</u>	<u>202,000</u>	<u>6,073</u>	<u>195,927</u>	<u>37,345</u>
Total Component Unit Long-Term Debt	<u>\$ 3,005,000</u>	<u>\$ 202,000</u>	<u>\$ 91,073</u>	<u>\$ 3,115,927</u>	<u>\$ 122,345</u>

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31</u>	<u>Governmental Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 140,000	\$ 3,430	\$ 122,345	\$ 129,033
2008	-	-	128,945	124,808
2009	-	-	130,612	120,440
2010	-	-	132,351	115,913
2011	-	-	131,674	111,010
2012-2016	-	-	515,000	495,154
2017-2021	-	-	625,000	379,461
2022-2026	-	-	775,000	225,010
2027-2029	<u>-</u>	<u>-</u>	<u>555,000</u>	<u>40,494</u>
Total	<u>\$ 140,000</u>	<u>\$ 3,430</u>	<u>\$ 3,115,927</u>	<u>\$ 1,741,323</u>

NOTE 7 - LONG-TERM DEBT (Continued)

A summary of vested benefits payable for the primary government and component unit at December 31, 2006 is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Vacation	\$ 144,185	\$ 19,850
Sick Leave	<u>134,286</u>	<u>320,448</u>
Totals	<u>\$ 278,471</u>	<u>\$ 340,298</u>

Vested Employee Benefits – Primary Government

Vacation is earned in varying amounts depending on the number of years of services of an employee and is made available to the employee at their anniversary date, not to exceed a total accumulation of 25 days for union employees, 25 days for administrative and nonunion supervisory employees. Vacation is payable at 100% to employees when they terminate employment.

Sick leave is accumulated at the rate of 1 day for each month of services, not to exceed a total accumulation of 45-100 days for court employees, 90 days for sheriff's department employees, and 30 days for all other employees.

Sick leave is payable at 50% at termination, retirement or death for the sheriff's department only.

Accrued Sick and Vacation – Component Unit

The accrued sick and vacation represents vested sick and vacation benefits due Road Commission employees upon termination of employment with the Road Commission. The balance at December 31, 2006, is \$19,850 for sick, and \$320,448 for vacations. All amounts vested have been accrued on the government-wide statements.

NOTE 8 - SHORT-TERM DEBT

The following is a summary of short-term debt issued to purchase the 2005 Delinquent Taxes:

	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:					
General Obligation Limited					
2006 Tax Notes Series	5.563	\$ -	\$ 500,000	\$ 500,000	\$ -

NOTE 9 - LEASES

Capital Leases – The County leases a Dodge pick-up under capital lease with yearly lease payment of \$5,291, including an interest rate of 5.75% – 9.0%. The lease qualifies as a capital lease for accounting purposes and therefore has been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations and the net present values are as follows:

2007	\$ 1,323
Total minimum lease payments	1,323
Less amount representing interest	<u>19</u>
Present value of minimum lease payment	<u>\$ 1,304</u>

NOTE 10 - RISK MANAGEMENT**Primary Government**

The County participates as a member in the Michigan Municipal Risk Management Authority (the “Authority”). The Authority is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the Authority is to administer a risk management fund, which provides members with loss protection for general and auto liability, motor vehicle physical damage and property.

The authority has entered into reinsurance agreements providing for loss coverage in excess of the amounts to be retained by the Authority and individual members.

In the event a reinsurance company does not meet its obligation to the Authority, responsibility for payment of any unreimbursed claims will be that of the Authority Reinsurance Fund.

The Authority has retained certain levels of risk rather than obtaining coverage through reinsurance agreements. The Authority established the Authority Reinsurance Fund in order to participate in the reinsurance agreements. Individual members are provided the same level of coverage previously afforded through a combination of the reinsurance agreements and the Reinsurance Fund. In addition, the Authority purchases insurance for certain risks not covered by the reinsurance agreements.

The reinsurance agreements discussed above include provisions for minimum annual premiums. As of December 31, 2006, the Authority had met the minimum requirements.

The County is a “state pool member” for the self-insured retention portion of liabilities and as such pays deductibles of only \$250 per vehicle and \$150 per occurrence for property and crime coverage. The County’s annual MMRMA premium includes a fee to participate as a “state pool member” for self-insured retention.

The County has transferred the risk of loss for workers’ compensation and health insurance via the purchase of commercial insurance policies. Settled claims have not exceeded coverage in any of the past three fiscal years.

NOTE 10 - RISK MANAGEMENT (Continued)**Component Unit**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Cheboygan County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for worker's compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the fund.

The Road Commission continues to carry commercial insurance for employees health and accident insurance, but has opted to participate in a self-insurance program that bases premiums on the Road Commission experience and provides for stop loss coverage. Premiums are adjusted every three months.

NOTE 11 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2006.

NOTE 12 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**PRIMARY GOVERNMENT****Description of Plan and Plan Assets**

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.0% times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2005.

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

Annual Pension Cost

During the year ended December 31, 2006, the County's contributions totaling \$378,050 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

NOTE 12 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Three year trend information as of December 31, follows:

	2003	2004	2005
Actuarial Value of Assets	\$ 9,610,030	\$ 10,368,117	\$ 11,100,677
Actuarial Accrued Liability	10,560,012	12,154,129	13,027,931
Unfunded AAL	949,982	1,786,012	1,927,254
Funded Ratio	91%	85%	85%
Covered Payroll	\$ 3,551,184	\$ 3,980,598	\$ 4,036,047
UAAL as a Percentage of Covered Payroll	27%	45%	48%

Three Year Trend Information			
Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 311,922	100%	\$ 0
2005	356,436	100%	0
2006	378,050	100%	0

COMPONENT UNIT
Plan Description

The Cheboygan County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Act of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2006 was 18.11% for general employees, 40.84% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

NOTE 12 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)Annual Pension Cost

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$479,214 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

	2003	2004	2005
Actuarial Value of Assets	\$ 8,117,500	\$ 8,527,856	\$ 8,867,942
Actuarial Accrued Liability	12,858,596	13,782,867	14,449,667
Unfunded AAL	4,741,096	5,255,011	5,581,725
Funded Ratio	63%	62%	61%
Covered Payroll	\$ 1,866,822	\$ 1,937,668	\$ 1,955,250
UAAL as a Percentage of Covered Payroll	254%	271%	285%

Three Year Trend Information			
Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 432,047	100%	\$ 0
2005	450,355	100%	0
2006	479,214	100%	0

NOTE 13 - POST EMPLOYMENT BENEFITS**COMPONENT UNIT**

In addition to the pension benefits described in Note 12, the Cheboygan County Road Commission provides post employment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. Expenditures for post employment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2006 these costs amounted to approximately \$408,975 with 34 eligible participants.

NOTE 14 - NET ASSETS RESTRICTED/FUND EQUITY RESERVES

Net assets restrictions/fund equity reserves can be described as follows:

Revenue Sharing Reserve	\$ 4,304,661	Reserved for Revenue Sharing
Marina	238,436	Restricted for Construction
Delinquent Tax	14,415	Restricted for Tax Administration

NOTE 15 - PRIOR PERIOD ADJUSTMENT

During fiscal year 2005 \$34,651 in revenues for Strait Regional Ride's operating grants were not accrued as revenue. Net assets of business-type activities will be increased as follows:

Beginning Net Assets January 1, 2006	\$ 8,343,062
Adjustments for Straits Regional Rides' operating grants	<u>34,651</u>
Restated Net Assets December 31, 2006	<u>\$ 8,377,713</u>

Required Supplementary Information

County of Cheboygan, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 5,922,515	\$ 5,922,515	\$ 5,958,505	\$ 35,990
Licenses & Permits	74,350	74,350	60,328	(14,022)
Federal Sources	99,563	176,520	201,195	24,675
State Sources	619,296	632,962	671,828	38,866
Local Sources	114,200	125,375	146,828	21,453
Charges for Services	1,289,750	1,289,750	1,173,385	(116,365)
Fines & Penalties	48,300	48,300	47,924	(376)
Interest & Rentals	98,000	98,000	269,038	171,038
Refunds & Reimbursements	179,486	213,076	292,676	79,600
Other Revenue	5,700	61,560	63,070	1,510
TOTAL REVENUES	8,451,160	8,642,408	8,884,777	242,369
EXPENDITURES:				
Legislative:				
Board of Commissioners	132,933	135,827	129,543	6,284
Judicial:				
Circuit Court	354,773	361,892	361,146	746
District Court	510,944	513,063	483,832	29,231
Victim's Rights	50,538	50,553	49,675	878
Jury Board	8,255	8,255	7,763	492
Probate Court	637,782	641,382	620,286	21,096
Juvenile Accountability	-	13,305	7,881	5,424
Total Judicial	1,562,292	1,588,450	1,530,583	57,867
General Government:				
Elections	39,700	39,700	20,223	19,477
Finance	129,045	158,318	156,802	1,516
Administrative Office	196,653	252,970	252,938	32
County Clerk/Register of Deeds	346,007	347,650	335,684	11,966
Equalization	283,246	285,192	281,128	4,064
Prosecuting Attorney	508,173	515,140	494,001	21,139
DARE	1,200	1,200	925	275
Treasurer	216,146	217,745	207,944	9,801
Maintenance	559,304	559,304	538,086	21,218
Major Equipment & Building	103,468	125,108	51,410	73,698
Human Resources	-	19,331	19,296	35
Drain Commission	3,125	3,125	2,272	853
County Surveyor	750	750	750	-
MSU Extension	101,213	102,178	100,856	1,322
Soil Conservation	15,589	15,589	14,643	946
General	425,361	425,361	341,090	84,271
Total General Government	2,928,980	3,068,661	2,818,048	250,613

County of Cheboygan, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Safety:				
Sheriff	\$ 1,040,809	\$ 1,088,718	\$ 1,052,337	\$ 36,381
ORV Enforcement	13,179	14,079	14,073	6
CCE 911	382,473	382,473	382,472	1
Marine Safety	86,801	112,942	109,464	3,478
Snowmobile Safety	26,169	26,256	23,251	3,005
Secondary Road Patrol	143,680	144,722	139,964	4,758
Local Grants	8,920	8,920	5,192	3,728
Federal Grants	13,978	13,977	13,817	160
Canine Unit	-	45,260	43,484	1,776
Corrections/Communications	1,266,186	1,263,558	1,213,504	50,054
Planning & Zoning	247,826	248,045	243,920	4,125
Buffer Zone Protection	-	11,962	11,893	69
HSGP Block Grant	18,563	44,452	44,452	-
Emergency Services	32,710	36,888	36,887	1
LEPC	600	600	370	230
Animal Control	114,703	118,493	117,793	700
Total Public Safety	3,396,597	3,561,345	3,452,873	108,472
Health & Welfare:				
Ambulance	70,000	70,000	70,000	-
Health Department	235,977	236,069	235,863	206
Mental Health	111,995	111,995	111,995	-
Medical Examiner	33,635	33,635	24,471	9,164
Veterans Services	104,303	104,420	98,102	6,318
Housing	88,946	89,232	84,001	5,231
Total Health & Welfare	644,856	645,351	624,432	20,919
Recreation & Culture:				
Airport	61,550	61,550	61,550	-
Other Expenditures:				
Trails Council	-	-	15,000	(15,000)
NEMCOG	8,297	8,297	8,296	1
Insurance	146,000	146,000	137,221	8,779
Other Miscellaneous	220,467	72,571	-	72,571
Total Other Expenditures	374,764	226,868	160,517	66,351
TOTAL EXPENDITURES	9,101,972	9,288,052	8,777,546	510,506
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(650,812)	(645,644)	107,231	752,875
OTHER FINANCING SOURCES (USES):				
Transfers In	1,458,459	1,458,459	770,760	(687,699)
Transfers Out	(807,647)	(812,815)	(569,304)	243,511
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	308,687	\$ 308,687
FUND BALANCE, JANUARY 1			1,917,721	
FUND BALANCE, DECEMBER 31			\$ 2,226,408	

County of Cheboygan, Michigan

Required Supplementary Information Budgetary Comparison Schedule Revenue Sharing Reserve Fund Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 1,830,000	\$ 1,830,000	\$ 1,806,364	\$ (23,636)
TOTAL REVENUES	1,830,000	1,830,000	1,806,364	(23,636)
OTHER FINANCING SOURCES (USES):				
Transfers Out	(1,830,000)	(1,830,000)	(466,777)	1,363,223
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	1,339,587	\$ 1,339,587
FUND BALANCE, JANUARY 1			2,965,074	
FUND BALANCE, DECEMBER 31			\$ 4,304,661	

County of Cheboygan, Michigan

Required Supplementary Information Budgetary Comparison Schedule Housing Commission Fund Year Ended December 31, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Federal Sources	\$ 235,004	\$ 235,004	\$ 99,908	\$ (135,096)
State Sources	189,575	189,575	-	(189,575)
Interest & Rentals	600	600	1,675	1,075
Other Revenue	91,000	115,000	56,396	(58,604)
TOTAL REVENUES	516,179	540,179	157,979	(382,200)
EXPENDITURES:				
Health & Welfare	552,692	612,015	174,245	437,770
TOTAL EXPENDITURES	552,692	612,015	174,245	437,770
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (36,513)	\$ (71,836)	(16,266)	\$ 55,570
FUND BALANCE, JANUARY 1			125,429	
FUND BALANCE, DECEMBER 31			\$ 109,163	

Other Supplementary Information

County of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

	Special Revenue Funds								
	Family Counseling	Termination Liability	PA 302 Training	Public Act 106	Probation Enhancement	Victim's Restitution	Remonumentation Grant	Gypsy Moth	Jaws of Life
ASSETS:									
Cash & Cash Equivalents - Unrestricted	\$ 2,823	\$ 82,578	\$ 10,562	\$ -	\$ 18,693	\$ 5,790	\$ -	\$ 31,600	\$ 12,636
Receivables:									
Accounts	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	-	-	-	-	-	42,389	-	-
TOTAL ASSETS	<u>\$ 2,823</u>	<u>\$ 82,578</u>	<u>\$ 10,562</u>	<u>\$ -</u>	<u>\$ 18,693</u>	<u>\$ 5,790</u>	<u>\$ 42,389</u>	<u>\$ 31,600</u>	<u>\$ 12,636</u>
LIABILITIES:									
Accounts Payable	\$ 450	\$ -	\$ 96	\$ -	\$ 10,143	\$ -	\$ -	\$ -	\$ 351
Accrued Liabilities	-	595	-	-	-	-	-	-	-
Due to Other Funds	-	-	-	-	-	-	18,642	-	-
Due to Governmental Units	-	-	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>450</u>	<u>595</u>	<u>96</u>	<u>-</u>	<u>10,143</u>	<u>-</u>	<u>18,642</u>	<u>-</u>	<u>351</u>
FUND BALANCES:									
Unreserved									
Designated for Subsequent Year's Expenditures	2,000	-	600	-	-	5,790	-	-	-
Undesignated	373	81,983	9,866	-	8,550	-	23,747	31,600	12,285
TOTAL FUND BALANCES	<u>2,373</u>	<u>81,983</u>	<u>10,466</u>	<u>-</u>	<u>8,550</u>	<u>5,790</u>	<u>23,747</u>	<u>31,600</u>	<u>12,285</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,823</u>	<u>\$ 82,578</u>	<u>\$ 10,562</u>	<u>\$ -</u>	<u>\$ 18,693</u>	<u>\$ 5,790</u>	<u>\$ 42,389</u>	<u>\$ 31,600</u>	<u>\$ 12,636</u>

County of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

	Special Revenue Funds								
	Community Projects	SANE	Friend of the Court	Maps Project	Cellular Phone	911 4% Surcharge	Public Improvement	Building Department	Register of Deeds Automation
ASSETS:									
Cash & Cash Equivalents - Unrestricted	\$ 1,815	\$ -	\$ 13,303	\$ -	\$ -	\$ 10,628	\$ 9,697	\$ 155,174	\$ 143,128
Receivables:									
Accounts	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-	-	-
Due from Governmental Units	-	21,480	65,894	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 1,815</u>	<u>\$ 21,480</u>	<u>\$ 79,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,628</u>	<u>\$ 9,697</u>	<u>\$ 155,174</u>	<u>\$ 143,128</u>
LIABILITIES:									
Accounts Payable	\$ -	\$ -	\$ 2,593	\$ -	\$ -	\$ 10,628	\$ -	\$ 813	\$ -
Accrued Liabilities	-	1,251	6,081	-	-	-	-	3,771	-
Due to Other Funds	-	8,698	-	-	-	-	-	-	-
Due to Governmental Units	-	-	-	-	-	-	-	-	-
Deferred Revenue	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>9,949</u>	<u>8,674</u>	<u>-</u>	<u>-</u>	<u>10,628</u>	<u>-</u>	<u>4,584</u>	<u>-</u>
FUND BALANCES:									
Unreserved									
Designated for Subsequent Year's Expenditures	-	-	-	-	-	-	-	-	-
Undesignated	1,815	11,531	70,523	-	-	-	9,697	150,590	143,128
TOTAL FUND BALANCES	<u>1,815</u>	<u>11,531</u>	<u>70,523</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,697</u>	<u>150,590</u>	<u>143,128</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,815</u>	<u>\$ 21,480</u>	<u>\$ 79,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,628</u>	<u>\$ 9,697</u>	<u>\$ 155,174</u>	<u>\$ 143,128</u>

County of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

	Special Revenue Funds								
	Disaster Contingency	Local Officer Training	Law Library	Veteran's Assistance	SAYPA Program	Senior Citizen's Millage	Social Services Medical	Department of Human Services	Child Care
ASSETS:									
Cash & Cash Equivalents - Unrestricted	\$ 10,000	\$ 6,505	\$ 2,206	\$ 2,286	\$ 41,870	\$ 1,094	\$ 5,782	\$ 16,739	\$ -
Receivables:									
Accounts	-	-	-	-	-	-	-	17,942	-
Taxes	-	-	-	-	-	596,549	-	-	-
Due from Governmental Units	-	-	-	-	11,318	-	-	-	17,397
TOTAL ASSETS	<u>\$ 10,000</u>	<u>\$ 6,505</u>	<u>\$ 2,206</u>	<u>\$ 2,286</u>	<u>\$ 53,188</u>	<u>\$ 597,643</u>	<u>\$ 5,782</u>	<u>\$ 34,681</u>	<u>\$ 17,397</u>
LIABILITIES:									
Accounts Payable	\$ -	\$ -	\$ 2,135	\$ -	\$ 156	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	-	-	-	-	212	-	-	-	1,450
Due to Other Funds	-	-	-	-	-	-	-	-	-
Due to Governmental Units	-	-	-	-	-	-	-	34,000	-
Deferred Revenue	-	-	-	-	-	596,549	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>2,135</u>	<u>-</u>	<u>368</u>	<u>596,549</u>	<u>-</u>	<u>34,000</u>	<u>1,450</u>
FUND BALANCES:									
Unreserved									
Designated for Subsequent Year's Expenditures	10,000	-	-	-	-	-	-	-	-
Undesignated	-	6,505	71	2,286	52,820	1,094	5,782	681	15,947
TOTAL FUND BALANCES	<u>10,000</u>	<u>6,505</u>	<u>71</u>	<u>2,286</u>	<u>52,820</u>	<u>1,094</u>	<u>5,782</u>	<u>681</u>	<u>15,947</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,000</u>	<u>\$ 6,505</u>	<u>\$ 2,206</u>	<u>\$ 2,286</u>	<u>\$ 53,188</u>	<u>\$ 597,643</u>	<u>\$ 5,782</u>	<u>\$ 34,681</u>	<u>\$ 17,397</u>

County of Cheboygan, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

	Special Revenue Funds							
	Veteran's Trust	Senior Citizens Busing	Probate Court	Courthouse Preservation	F.I.A. Building	CCE 911 Capital	County Fair	Totals
ASSETS:								
Cash & Cash Equivalents - Unrestricted	\$ 197	\$ -	\$ 3,566	\$ 187,296	\$ 60,491	\$ 2	\$ 41,432	\$ 877,893
Receivables:								
Accounts	-	-	-	-	-	-	-	17,942
Taxes	-	-	-	-	-	-	-	596,549
Due from Governmental Units	-	-	-	-	-	-	-	158,478
TOTAL ASSETS	<u>\$ 197</u>	<u>\$ -</u>	<u>\$ 3,566</u>	<u>\$ 187,296</u>	<u>\$ 60,491</u>	<u>\$ 2</u>	<u>\$ 41,432</u>	<u>\$ 1,650,862</u>
LIABILITIES:								
Accounts Payable	\$ -	\$ -	\$ -	\$ 2,045	\$ -	\$ -	\$ -	\$ 29,410
Accrued Liabilities	-	-	-	305	-	-	-	13,665
Due to Other Funds	-	-	-	-	-	-	-	27,340
Due to Governmental Units	-	-	-	-	-	-	-	34,000
Deferred Revenue	-	-	-	-	-	-	-	596,549
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>700,964</u>
FUND BALANCES:								
Unreserved								
Designated for Subsequent Year's Expenditures	-	-	-	-	60,129	-	5,855	84,374
Undesignated	197	-	3,566	184,946	362	2	35,577	865,524
TOTAL FUND BALANCES	<u>197</u>	<u>-</u>	<u>3,566</u>	<u>184,946</u>	<u>60,491</u>	<u>2</u>	<u>41,432</u>	<u>949,898</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 197</u>	<u>\$ -</u>	<u>\$ 3,566</u>	<u>\$ 187,296</u>	<u>\$ 60,491</u>	<u>\$ 2</u>	<u>\$ 41,432</u>	<u>\$ 1,650,862</u>

County of Cheboygan, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2006

	Special Revenue Funds								
	Family Counseling	Termination Liability	PA 302 Training	Public Act 106	Probation Enhancement	Victim's Restitution	Remonumentation Grant	Gypsy Moth	Jaws of Life
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	-	-	-	-	-	-	-	-
State Sources	-	-	4,754	153,466	-	-	94,487	-	-
Local Sources	-	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	490	-	-	-
Fines & Penalties	-	-	-	-	3,990	-	-	-	-
Interest & Rentals	-	228	-	-	-	-	-	-	-
Other Revenues	2,730	-	-	-	-	-	-	-	-
TOTAL REVENUES	2,730	228	4,754	153,466	3,990	490	94,487	-	-
EXPENDITURES:									
Judicial	5,513	-	-	-	-	-	-	-	-
General Government	-	42,420	-	76,733	-	15	70,740	-	-
Public Safety	-	-	3,544	-	11,405	-	-	-	6,461
Health & Welfare	-	-	-	-	-	-	-	-	-
Recreation & Culture	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	5,513	42,420	3,544	76,733	11,405	15	70,740	-	6,461
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,783)	(42,192)	1,210	76,733	(7,415)	475	23,747	-	(6,461)
OTHER FINANCING SOURCES (USES):									
Transfers In	-	30,000	-	-	-	-	-	-	3,500
Transfers Out	-	-	-	(76,733)	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(2,783)	(12,192)	1,210	-	(7,415)	475	23,747	-	(2,961)
FUND BALANCES, January 1	5,156	94,175	9,256	-	15,965	5,315	-	31,600	15,246
FUND BALANCES, December 31	\$ 2,373	\$ 81,983	\$ 10,466	\$ -	\$ 8,550	\$ 5,790	\$ 23,747	\$ 31,600	\$ 12,285

County of Cheboygan, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2006

	Special Revenue Funds								
	Community Projects	SANE	Friend of the Court	Maps Project	Cellular Phone	911 4% Surcharge	Public Improvement	Building Department	Register of Deeds Automation
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Sources	-	34,404	303,882	-	-	-	-	-	-
State Sources	600	34,404	-	-	-	-	-	-	-
Local Sources	-	-	56,570	-	-	-	-	-	-
Contributions	3,145	-	-	-	-	-	-	-	-
Charges for Services	-	-	28,132	-	-	-	-	314,099	-
Fines & Penalties	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	-	-	-	-	-	-	5,378
Other Revenues	-	-	-	-	110,145	144,815	-	122	-
TOTAL REVENUES	3,745	68,808	388,584	-	110,145	144,815	-	314,221	5,378
EXPENDITURES:									
Judicial	-	-	415,791	-	-	-	-	-	-
General Government	-	-	-	14,512	-	-	-	-	7,769
Public Safety	3,783	70,438	-	-	110,145	144,815	-	338,131	-
Health & Welfare	-	-	-	-	-	-	-	-	-
Recreation & Culture	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	3,783	70,438	415,791	14,512	110,145	144,815	-	338,131	7,769
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(38)	(1,630)	(27,207)	(14,512)	-	-	-	(23,910)	(2,391)
OTHER FINANCING SOURCES (USES):									
Transfers In	-	-	22,000	13,382	-	-	-	-	45,150
Transfers Out	-	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(38)	(1,630)	(5,207)	(1,130)	-	-	-	(23,910)	42,759
FUND BALANCES, January 1	1,853	13,161	75,730	1,130	-	-	9,697	174,500	100,369
FUND BALANCES, December 31	\$ 1,815	\$ 11,531	\$ 70,523	\$ -	\$ -	\$ -	\$ 9,697	\$ 150,590	\$ 143,128

County of Cheboygan, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2006

	Special Revenue Funds								
	Disaster Contingency	Local Officer Training	Law Library	Veteran's Assistance	SAYPA Program	Senior Citizen's Millage	Social Services Medical	Department of Human Services	Child Care
REVENUES:									
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 513,033	\$ -	\$ -	\$ -
Federal Sources	-	-	-	-	117,655	-	-	-	-
State Sources	-	-	-	-	-	-	-	215,217	346,391
Local Sources	-	-	-	-	-	-	-	-	-
Contributions	-	-	-	11,341	-	-	-	-	-
Charges for Services	-	10,489	-	-	-	-	10,120	-	8,488
Fines & Penalties	-	-	-	-	-	-	-	-	-
Interest & Rentals	-	-	-	-	-	7,021	-	-	-
Other Revenues	-	-	3,500	-	64,736	-	-	-	-
TOTAL REVENUES	-	10,489	3,500	11,341	182,391	520,054	10,120	215,217	354,879
EXPENDITURES:									
Judicial	-	-	15,919	-	-	-	-	-	-
General Government	-	-	-	-	-	-	-	-	-
Public Safety	-	8,005	-	-	-	-	-	-	-
Health & Welfare	-	-	-	10,658	180,549	519,888	21,367	215,153	718,491
Recreation & Culture	-	-	-	-	-	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	8,005	15,919	10,658	180,549	519,888	21,367	215,153	718,491
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	2,484	(12,419)	683	1,842	166	(11,247)	64	(363,612)
OTHER FINANCING SOURCES (USES):									
Transfers In	-	-	11,285	-	-	-	10,881	-	338,107
Transfers Out	-	-	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	2,484	(1,134)	683	1,842	166	(366)	64	(25,505)
FUND BALANCES, January 1	10,000	4,021	1,205	1,603	50,978	928	6,148	617	41,452
FUND BALANCES, December 31	\$ 10,000	\$ 6,505	\$ 71	\$ 2,286	\$ 52,820	\$ 1,094	\$ 5,782	\$ 681	\$ 15,947

County of Cheboygan, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2006

	Special Revenue Funds							
	Veteran's Trust	Senior Citizens Busing	Probate Court	Courthouse Preservation	F.I.A. Building	CCE 911 Capital	County Fair	Totals
REVENUES:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 513,033
Federal Sources	-	-	-	-	-	-	-	455,941
State Sources	13,000	50,384	-	-	-	-	-	912,703
Local Sources	-	-	-	-	-	-	-	56,570
Contributions	-	-	-	-	-	-	-	14,486
Charges for Services	-	-	10,767	-	-	-	220,143	602,728
Fines & Penalties	-	-	-	1,650	-	-	-	5,640
Interest & Rentals	-	-	-	-	1,861	-	-	14,488
Other Revenues	-	-	-	-	204,867	-	-	530,915
TOTAL REVENUES	13,000	50,384	10,767	1,650	206,728	-	220,143	3,106,504
EXPENDITURES:								
Judicial	-	-	14,562	22,859	-	-	-	474,644
General Government	-	-	-	-	-	-	-	212,189
Public Safety	-	-	-	-	-	-	-	696,727
Health & Welfare	13,309	50,384	-	-	68,000	-	-	1,797,799
Recreation & Culture	-	-	-	-	-	-	196,733	196,733
Capital Outlay	-	-	-	-	-	18,600	-	18,600
Debt Service	-	-	-	-	150,220	-	-	150,220
TOTAL EXPENDITURES	13,309	50,384	14,562	22,859	218,220	18,600	196,733	3,546,912
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(309)	-	(3,795)	(21,209)	(11,492)	(18,600)	23,410	(440,408)
OTHER FINANCING SOURCES (USES):								
Transfers In	-	-	-	41,389	-	18,600	6,000	540,294
Transfers Out	-	-	-	-	-	-	-	(76,733)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(309)	-	(3,795)	20,180	(11,492)	-	29,410	23,153
FUND BALANCES, January 1	506	-	7,361	164,766	71,983	2	12,022	926,745
FUND BALANCES, December 31	\$ 197	\$ -	\$ 3,566	\$ 184,946	\$ 60,491	\$ 2	\$ 41,432	\$ 949,898

County of Cheboygan, Michigan

Combining Statement of Net Assets Nonmajor Enterprise Funds December 31, 2006

	Tax Foreclosure	Straits Regional Ride	Jail Commissary	Totals
ASSETS:				
Cash & Cash Equivalents - Unrestricted	\$ 501,673	\$ -	\$ 5,850	\$ 507,523
Receivables:				
Accounts	-	79,049	-	79,049
Total Current Assets	501,673	79,049	5,850	586,572
Capital Assets - (Net of Accumulated Depreciation)	-	232,327	-	232,327
TOTAL ASSETS	\$ 501,673	\$ 311,376	\$ 5,850	\$ 818,899
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ -	\$ 18,681	\$ 1,504	\$ 20,185
Accrued Liabilities	11,348	9,787	-	21,135
Due to Other Funds	-	55,440	-	55,440
TOTAL LIABILITIES	11,348	83,908	1,504	96,760
NET ASSETS:				
Invested in Capital Assets	-	232,327	-	232,327
Unrestricted (Deficit)	490,325	(4,859)	4,346	489,812
TOTAL NET ASSETS	490,325	227,468	4,346	722,139
TOTAL LIABILITIES AND NET ASSETS	\$ 501,673	\$ 311,376	\$ 5,850	\$ 818,899

County of Cheboygan, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Assets - Nonmajor Enterprise Funds Year Ended December 31, 2006

	Tax Foreclosure	Straits Regional Ride	Jail Commissary	Totals
OPERATING REVENUES:				
Federal Revenue - Operations	\$ -	\$ 99,386	\$ -	\$ 99,386
State Revenue - Operations	-	221,071	-	221,071
Charges for Services	115,860	189,265	13,021	318,146
TOTAL OPERATING REVENUES	115,860	509,722	13,021	638,603
OPERATING EXPENSES:				
Personal Services	18,728	102,922	-	121,650
Contractual Services	43,957	396,457	-	440,414
Utilities	-	1,331	-	1,331
Repairs & Maintenance	1,320	42,609	-	43,929
Other Supplies & Expenses	86,466	22,978	11,907	121,351
Depreciation	-	126,957	-	126,957
TOTAL OPERATING EXPENSES	150,471	693,254	11,907	855,632
OPERATING INCOME (LOSS)	(34,611)	(183,532)	1,114	(217,029)
NON-OPERATING REVENUES:				
Interest on Deposits	13,884	-	-	13,884
INCOME (LOSS) BEFORE TRANSFERS	(20,727)	(183,532)	1,114	(203,145)
Transfers In	-	29,010	-	29,010
CHANGE IN NET ASSETS	(20,727)	(154,522)	1,114	(174,135)
NET ASSETS, January 1	511,052	347,339	3,232	861,623
PRIOR PERIOD ADJUSTMENT	-	34,651	-	34,651
NET ASSETS, December 31	\$ 490,325	\$ 227,468	\$ 4,346	\$ 722,139

County of Cheboygan, Michigan

Combining Statement of Cash Flows Nonmajor Enterprise Funds Year Ended December 31, 2006

	Tax Foreclosure	Straits Regional Ride	Jail Commissary	Totals
Cash Flows from Operating Activities:				
Cash Received from Customers or Users	\$ 115,860	\$ 103,493	\$ 13,021	\$ 232,374
Receipts from Governmental Units	-	332,526	-	332,526
Cash Payments to Suppliers	(146,834)	(480,138)	(10,610)	(637,582)
Cash Payments to Employees	-	(93,135)	-	(93,135)
Net Cash Provided (Used) by Operating Activities	(30,974)	(137,254)	2,411	(165,817)
Cash Flows from Noncapital Financing Activities:				
Prior Period Adjustment	-	34,651	-	34,651
Transfers In	-	29,010	-	29,010
Cash Provided (Used) by Noncapital Financing Activities	-	63,661	-	63,661
Cash Flows from Investing Activities:				
Interest on Deposits	13,884	-	-	13,884
Net Cash Provided (Used) by Investing Activities	13,884	-	-	13,884
Net Increase (Decrease) in Cash and Cash Equivalents	(17,090)	(73,593)	2,411	(88,272)
Cash and Cash Equivalents - Beginning of Year	518,763	73,593	3,439	595,795
Cash and Cash Equivalents - End of Year	\$ 501,673	\$ -	\$ 5,850	\$ 507,523

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Income (Loss)	\$ (34,611)	\$ (183,532)	\$ 1,114	\$ (217,029)
Non-cash and Other Non-operating Expenses				
Depreciation Expense	-	126,957	-	126,957
Decrease (Increase) in Assets:				
Accounts Receivable	-	(73,703)	-	(73,703)
Increase (Decrease) in Liabilities:				
Accounts Payable	-	(65,335)	1,297	(64,038)
Advances Payable	-	(6,868)	-	(6,868)
Due to Other Funds	-	55,440	-	55,440
Accrued Liabilities	3,637	9,787	-	13,424
Net Cash Provided (Used) by Operating Activities	\$ (30,974)	\$ (137,254)	\$ 2,411	\$ (165,817)



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Honorable Chairperson and Members
Of the Board of Commissioners
County of Cheboygan, Michigan

We have audited the financial statements of the County of Cheboygan for the year ended December 31, 2006, and have issued our reports thereon dated April 12, 2007. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County of Cheboygan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Cheboygan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Cheboygan's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Cheboygan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Cheboygan's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the County of Cheboygan are described in Note 1. No new accounting policies were adopted and there were no changes to the application of any existing policies during the fiscal year. We noted no transactions entered into by the County of Cheboygan during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County of Cheboygan's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the County of Cheboygan, either individually or in the aggregate, indicate matters that could have a significant effect on the County of Cheboygan's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County of Cheboygan or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Summer Tax Levy (Prior Year)

With the change in the funding of Revenue Sharing, various issues have surfaced. The State allowed Counties to place an amount equal to 1/3 of their 2004 levy for three years from the 2004, 2005, and 2006 levies in a Reserve fund each January. To replace this 1/3 taken from the operating levy the County is allowed to levy a summer tax beginning in July of 2005. 1/3 of the 2005 levy, 2/3 of the 2006 levy and 3/3 of the 2007 levy would be summer collections. This process of funding would allow the Counties to still fund Revenue Sharing and still receive 100% of their operating levies each year. One area of concern is that the summer collections are not completely received in cash at year end. Furthermore, what isn't collected does not become delinquent until March 1 of each year. This creates a cash flow shortage which can be alleviated by borrowing from the Revenue Sharing Reserve Fund. It also creates a revenue recognition issue in that the revenue is not completely collected within 60 days of year end. It is collected when tax settlement occurs in March. In summary, because the legislature intended that the summer levy would make the Counties whole, we recommend that tax revenue be recorded to account for the uncollected portion of the summer levy at year end. Also, the County should consider the effect of the above changes on its cash flow needs.

Personal Property Taxes

Currently, the County is not recording the amount of outstanding delinquent personal property taxes that are due to the County in the general ledger. It is recommended the County record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The County should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

Form I-9

During the compliance review portion of the audit, it was noted that I-9s have not been completely filled out. The County was relying on alternative documentation while leaving, the “Employer Review and Verification” and the “Certification” sections blank. Form I-9 should be completely filled out and kept in a file for for each employee hired on or after November 6, 1986. It is recommended that all form I-9s be reviewed annually to ensure that they are filled out completely for all employees who meet the retention criteria.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

April 12, 2007